

Maine

Credit Profile

US\$141.065 mil GO bnds due 06/01/2019

Long Term Rating

AA/Stable

New

Rationale

Standard & Poor's Ratings Services has assigned its 'AA' rating to the state of Maine's \$130.815 million 2009 general obligation (GO) bonds. Standard & Poor's has also affirmed its 'AA' rating on all GO debt outstanding for Maine. The outlook is stable.

In our opinion, the rating reflects the state's:

- Relatively continued stable economy, which is experiencing modest employment growth in the health care and education sector;
- Improved financial performance and position due to more-controlled budget growth and stronger revenues, which have helped to restore, in part, reserves relative to fiscals 1999 and 2000 levels at the close of fiscal 2008; and
- Favorable debt position with a low debt burden and rapid amortization of debt outstanding due to continued conservative debt practices.

The state's full faith and credit pledge secures the GO debt. These bonds will be used to take out Maine's bond anticipation notes outstanding set to mature June 2009.

For the health care and higher education sector, Maine's economy remains relatively stable despite the overall recession, but in general the economy has not been sheltered, with continued declines in certain employment sectors such as construction, manufacturing, and trade. The continued expansion in health care and education will be a key component for the state's economy; this sector currently accounts for 16% of total employment, and IHS Global Insight Inc. anticipates that the sector will add more than 1.8% jobs each year from 2010-2014 and that health care will account for 17.8% of total employment by the close of 2014. This demonstrates that demand for education and health care services is constant, even during

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economic downturns. Projections for economic growth and employment expansion in 2009 and beyond remain modest, with small employment and income increases from 2008. IHS anticipates Maine's economic recovery to begin in 2010, but at a slow pace with payrolls not likely to fully recover to pre-recession levels until late 2014. Maine reported unemployment as of March 2009 to be 8.1% (highest since 1991) seasonally adjusted compared with the national rate of 8.5% and compared with 5.4% as of November 2008. The state expects unemployment to peak at 10% and to continue to track the national economy.

The state's housing market has also seen declines with the median price of an existing single-family home down nearly 2% through the second quarter of 2008, but this still remains lower and not as extreme a decline as realized in other states nationwide. Housing starts as per IHS are down 36.4% from 2008 to 2009 with the average existing home price down about 7% for the same period.

Maine has also continued to realize modest population growth, increasing less than 0.5% in 2008 with population growth mostly occurring in the retiree sector; therefore, it reflects the labor force's limited expansion. Nevertheless, the economy has experienced diversification; but, in general, it remains structured around tourism and the related service industries, with manufacturing playing a smaller role in employment and wages but still a relevant sector. Although other sectors throughout the state continue to increase, manufacturing is still a major presence, accounting for just over 9% of total employment and 13% of real gross state product. IHS estimates manufacturing employment to be down 10.4% in 2009. Personal income growth is likely to continue to lag the national rate due to the modest employment expansion, coupled with, although declining, a continued reliance on shrinking manufacturing industries.

In the past few years, Maine experienced some positive economic events, buoying employment retention prospects at several of the state's larger job centers and eliminating what had been long-term economic risks. The latest May 2009 economic forecast for the state reports that Maine will rebound quicker than during the last recession, taking about 10 quarters to rebound, which is about half the time compared with the prior recession at 20 quarters. The latest report also states that non-farm and salary jobs were 15,500 fewer in February 2009 from a year ago.

We view Maine's financial position as generally favorable because of improving budget stabilization reserves and improved liquidity, which gives the state assistance and flexibility when dealing with revenue shortfalls, such as the remainder of this current biennium budget as well as the upcoming 2010-2011 biennium. The state's growing negative unreserved general fund balance, based on generally accepted accounting principles, however, remains a credit concern. Maine's continued and more recent ability during the past three fiscal years to attempt to control general fund expenditure growth and its higher revenue collections somewhat mitigate the imbalance caused by one-time revenue sources for recurring budget appropriations.

Net of transfers and adjustments, fiscal 2008 closed with a \$73.7 million operating deficit compared with a \$23.4 million operating surplus in fiscal 2007. Although the total general fund balance remains negative, the state was still able to add to its stabilization fund once again; reserves were a negative \$238.5 million at close of fiscal 2008 compared with a negative \$164.8 million at fiscal year-end 2007 as restated in the fiscal 2008 CAFR, and are now lower than the negative \$177.6 million in fiscal 2006. Despite budgetary pressures, Maine was still able to make the full \$10 million deposit into the stabilization fund; the balance, as of June 30, 2008, was \$128.9 million, or what we deem to be a borderline adequate to good 3.9% of total general fund revenues. An additional \$40.6

million working capital reserve provides revenue flexibility. Maine Governor John Baldacci's proposed fiscal 2010-2011 biennium budget totals \$5.8 billion in general fund appropriations, representing a decline from the \$6.3 billion previous biennium, reflecting the state's recently revised forecast.

Standard & Poor's considers Maine's financial management practices "good" under its Financial Management Assessment (FMA) methodology, indicating the state's financial practices exist in most areas but that governance officials might not formalize or regularly monitor all of them.

Maine's debt profile remains a credit strength due, in part, to the state's conservative debt practices. As of fiscal year-end 2008, the state had \$475.8 million of GO bonds outstanding. Adding to the state's conservativeness, the Maine Constitution contains a provision that state borrowers must pay debt service first and there is a prohibition on using bond proceeds to fund operations. Maine's debt burden is low, debt structure is amortized over a short period, and planned issuances are manageable in our view. Nearly all of the state's direct debt consists of fixed-rate GO bonds, which it will completely amortize over the next 10 years.

Outlook

The stable outlook reflects Standard & Poor's expectation that the state's prudent financial and debt management practices will continue to lead to positive financial operations and a structural budget balance especially into the 2010-2011 biennium budget. Maine's past revenue growth, coupled with lower appropriation growth, has allowed it to increase reserves, providing the state some measure of operating flexibility should its revenue growth moderate, which it has as a result of the current recession coupled with additional projected revenue shortfalls in outer years. We anticipate that, despite the current plans to draw on its rainy day fund as well as drain the working capital reserve, the state will begin to rebuild reserves once recovery starts. The stable outlook also reflects the state's ongoing budget pressures associated with the growing service demands of the state's local public education commitment and its Medicaid program.

Related Research

USPF Criteria: "GO Debt," Oct. 12, 2006

<i>Ratings Detail (As Of 27-May-2009)</i>		
<i>Maine GO</i>		
Long Term Rating	AA/Stable	Affirmed
<i>Maine GO</i>		
Long Term Rating	AA/Stable	Affirmed
Maine GO		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
<i>Maine Govt Facs Auth , Maine</i>		
Maine		
Maine Govt Facs Auth (Maine) Ise rental		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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